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This Week in Canadian Agriculture 2004

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Report Highlights:

* Crunch Time is Coming as Fall Nears and Border Remains Closed * Proposed Price Increase in Milk Draws Ire of Food and Consumer Groups * In Spite of Softwood Duties, B.C.'s Lumber Industry Performing Strongly * Cool, Wet Weather Reduces Grasshopper Infestation * U.S. Labeling Law Infuriates B.C. Fish Farmers * Fraser Valley Poultry Farms Begin to Restock * Canada to Enhance BSE Controls * Winter Wheat Harvest In Essex County Looks Bleak * Saskatchewan and Manitoba Crop Update

Includes PSD Changes: No
Includes Trade Matrix: No
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This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

CRUNCH TIME IS COMING AS FALL NEARS AND BORDER REMAINS CLOSED: As the United States border continues to remain closed to live Canadian cattle exports, anxiety wracks the Canadian cattle industry as fall edges closer. The industry is facing its largest calf crop in 25 years and they are getting ready to go to market in the fall. If the border does not open prior to fall sales, this could send cattle prices in Canada plummeting. With limited processing capacity, the large calf crop will flood the market with animals, driving down the prices and leaving producers with very little. Producers receive 70-75% of their annual income during the fall weaning and sale period. In a normal year, roughly 4.5 million calves are sold at auction in the fall, but this year the calf crop is estimated around 5 million animals. This is as a result of older cows being kept rather than culled, which leads to another problem facing the cattle industry, too many older, cull cows. The Western Premiers recently stated that Ottawa needs to prepare for a massive cattle cull if the border does not reopen by Labor Day, in order to preserve the cattle industry in Canada. The estimated number of cows that would need to be culled could be anywhere from 600,000 to 1 million animals.

PROPOSED PRICE INCREASE IN MILK DRAWS IRE OF FOOD AND CONSUMER GROUPS: As previously reported in This Week in Canadian Agriculture, Issue 23, the Canadian Dairy Commission (CDC) is considering a price increase in industrial milk, which would be effective September 1, 2004. This would be the second increase in the price of industrial milk in seven months. In February, the industry got a 4% increase in price and now wants a 2% increase to help mitigate the income loss as a result of the one case of BSE. This has drawn the ire of groups like the Canadian Restaurant and Foodservice Association (CFRA), the Consumers Association of Canada, the Canadian Council of Grocery Distributors, and Food and Consumer Products Manufacturers of Canada. The concerns put forward by these groups are:

- The Dairy Farmer of Canada (DFC) say their members need BSE compensation because they no longer can sell their surplus cows to the United States. But they ignore a proposal by Ontario's Georgian Bay Milk Company Ltd. to buy the cows and export the milk.
- The CDC is a federal Crown Corporation accountable to the Minister of Agriculture - a position that has yet to be filled by the Prime Minister. It is opportunistic for the CDC to unilaterally change the long-standing process of evaluating dairy prices once a year under the guise of providing BSE compensation.
- The CDC has failed to act on the Auditor General's recommendation to ask the Minister of Agriculture to appoint an oversight committee of stakeholders from all industry groups.
- After considering the impact of BSE on Canada's 18,000 dairy and 90,000 beef producers, the federal and provincial governments have already awarded \$1.7 billion in BSE compensation. If additional compensation is required it is up to the federal and provincial Ministers of Agriculture to determine Canadian fiscal priorities, based on the evidence provided – this is not the mandate of the CDC.

The CRFA is one of the dairy industry's largest customers and they feel it is unfair for consumers and businesses to swallow another increase in dairy prices. According to the CRFA, the CDC has increased prices at a rate well above the cost of production and the consumer price index, providing dairy farmers with an average profit margin of 23.4%, compared to 4.6% for foodservice operators. The DFC claims that the price increase is necessary and that it would not affect the price of milk at the grocery store, but would likely drive up the price of cheese, ice cream and other milk products.

IN SPITE OF SOFTWOOD DUTIES, B.C.'s LUMBER INDUSTRY PERFORMING STRONGLY: According to Statistics Canada, exports from B.C.'s forestry sector rose by \$400 million in May, despite the softwood duties imposed by the United States. B.C.'s total exports reached \$12.6 billion through the first five months of the year, with forest products accounting for \$5.7 billion of that. Since May 2003, export prices for B.C. lumber have risen 46 percent. According to Stats Canada, overall Canadian lumber

exports rose 15.6% from April. The export increases are being fueled by a strong U.S. housing market, a Japanese market with a growing interest in B.C. wood, and modified Coastal stumpage rates.

COOL, WET WEATHER REDUCES GRASSHOPPER INFESTATION: The cool, wet weather that has plagued the Prairies this spring, delaying summer and crop development, has helped to reduce the projected grasshopper infestation. Several years of drought spawned the buildup of trillions of grasshopper eggs in Alberta, Saskatchewan and Manitoba, but the cold and rain helped knock down the emerging grasshoppers before they were able to grow big enough and do any damage. In the last two years, grasshoppers have ravaged crops across the Prairies. Predicted warmer weather could allow the grasshoppers to hatch, but the delay in their maturation cycle would minimize their impact on the crops.

U.S. LABELING LAW INFURIATES B.C. FISH FARMERS: A new U.S. law requiring salmon served in Alaskan restaurants to be labeled "wild" or "farmed" has B.C. fish farmers up in arms. They are concerned the new regulations will cut into their business. Most salmon farmed in B.C. is exported to the U.S. The B.C. Salmon Farmers Association would prefer that Alaskan restaurants not label their salmon. The Association is already fighting the perception that farmed salmon is dangerous and feel the labeling requirement could impact their sales to the U.S.

FRASER VALLEY POULTRY FARMS BEGIN TO RESTOCK: The Canadian Food Inspection Agency (CFIA) has announced that all the poultry farms in the High-Risk Regions of Fraser Valley, which were depopulated as a result of avian influenza, are eligible to begin restocking as of July 9. This is following a 21-day period since the last infected premises was satisfactorily cleaned and disinfected. The 21-day stay reflects the standards of the Office International des Epizooties, the World Organization for Animal Health. Birds that are brought onto the previously infected premises must first be tested for avian influenza and then tested weekly for four weeks since it has been less than 60 days since the premises were satisfactorily cleaned and disinfected. Now that these premises are free to restock, movement permits will be applied throughout the area and the CFIA will continue to monitor the need for movement restrictions. For additional information regarding the impact of avian influenza on the B.C. poultry industry, see This Week in Canadian Agriculture, Issue 19.

CANADA TO ENHANCE BSE CONTROLS: The Canadian Food Inspection Agency (CFIA) announced that it will introduce a regulatory proposal to require the removal and redirection of specified risk material (SRM) and dead and downer cattle from all animal feed, including pet food. The removal of SRM's from the animal feed chain is another step the Government of Canada is taking to further strengthen Canadian safeguards against BSE and add another level of security to Canada's current feed ban. The announcement occurred on the same day the USDA announced similar plans.

WINTER WHEAT HARVEST IN ESSEX COUNTY LOOKS BLEAK: According to the Ontario's provincial department of Agriculture (OMAF), yields of winter wheat in Essex are running 15-20% below last year's record yields, with Fusarium levels running anywhere from 1% to 7%. Soft red winter and hard red winter in Essex is coming off between 1.1% and 1.5% Fusarium. Essex County and an area south of London are considered hot spots for Fusarium. Rather than the above average harvest that looked so promising this spring, Fusarium and other diseases have reduced the yields, leaving producers with a predicted average harvest. Producers that were hoping an early harvest would help prevent further spread of Fusarium, but so far it is not working. On the brighter side, the high level of Fusarium in U.S. wheat fields may be beneficial for Ontario wheat producers. In fact, some agri-businesses in the Essex area are accepting hard and soft red wheat at up to 1.5% Fusarium with no discount. Others are accepting wheat up to 2% Fusarium with only a 5-cent per bushel discount.

SASKATCHEWAN AND MANITOBA CROP UPDATE: Both provincial departments of Agriculture are reporting that the warmer weather has helped improve crop conditions, but crop development still remains behind normal. The warmer weather has resulted in more grasshoppers hatching, but for the most part they are not a major problem in either province. Disease, as a result of the wet conditions is occurring in both provinces. Both provinces are reporting good to excellent crop conditions for all the major crops.

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